

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PM-05 DODE-00 L-03 H-01 PA-01 PRS-01
AGRE-00 /091 W

-----086511 271211Z /40

R 271020Z AUG 77

FM AMEMBASSY DUBLIN
TO SECSTATE WASHDC 9539
INFO AMEMBASSY LONDON
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL BELFAST
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C O N F I D E N T I A L

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USEEC ALSO FOR EMBASSY

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E.O. 11652: N/A

TAGS: ECON, EFIN, EC, EI

SUBJECT: THE IRISH POUND: TO FREE OR NOT TO FREE

: DUBLIN 1987

1. SUMMARY & COMMENT: THE POSSIBILITY OF BREAKING THE IRISH POUND-
BRITISH POUND LINK HAS RECEIVED CONSIDERABLE ATTENTION IN THE
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IRISH MEDIA IN RECENT WEEKS AND FINANCE DEPARTMENT OFFICIALS CONFIRM THAT SERIOUS CONSIDERATION IS BEING GIVEN TO SUCH A MEASURE. RECENT FIRMNESS OF BRITISH POUND, COUPLED WITH INVIOABILITY OF AUGUST VACATION PERIOD, SEEM TO HAVE DISPELLED ANY THOUGHTS OF PRECIPITOUS ACTION ON PART OF GO. MAJOR SHORT-RUN CONCERN OF GOVERNMENT WHEN ISSUE SURFACED SEVERAL WEEKS AGO(REFTEL) APPEARED TO BE TO PREVENT IRISH POUND FROM FOLLOWING BRITISH CURRENCY ON

ANY FURTHER STEEP DOWNWARD SLIDE. AS LONG AS BRITISH POUND REMAINS STRONG IRISH ACTION IN IMMEDIATE FUTURE SEEMS UNLIKELY. HOWEVER, MANY IRISH ECONOMISTS BELIEVE GROWING TRADE TIES WITH CONTINENTAL EC PARTNERS MAKE SPLIT MORE ECONOMICALLY FEASIBLE THAN EVER BEFORE, AND ADVOCATES POINT TO ADVANTAGES IN CONTROL OF IMPORTED INFLATION AND UTILIZATION OF INDEPENDENT MONETARY POLICY WHICH SPLIT WOULD OFFER. END SUMMARY.

2. CONSIDERABLE DISCUSSION, LEARNED AND OTHERWISE, HAS BEEN FOCUSED IN RECENT WEEKS ON PERENNIAL QUESTION OF WHETHER THE IRISH POUND SHOULD BE SET FREE OF ITS 150 YEAR OLD LINK WITH THE BRITISH POUND. HISTORICALLY ADVOCATES HAVE BEEN INCLINED TO CONCENTRATE ON THE POLITICAL AND NATIONALISTIC ASPECTS OF SUCH A MEASURE. CURRENT DEBATE HAS TENDED TOWARDS A MORE SOPHISTICATED LEVEL, ALTHOUGH THERE IS NO DOUBT THAT THE SEVERING OF THE TIE STILL HAS A CERTAIN JINGOISH APPEAL. ATTENTION WAS HEIGHTENED BY MEDIA REPORTS LAST MONTH THAT MINISTER OF FINANCE COLLEY HAD PUBLICALLY REMARKED THAT A SPLIT WAS INEVITABLE. FINANCE MINISTRY OFFICIALS DENY THAT ANY "OFFICIAL RECORD" OF SUCH A REMARK EXISTS, BUT HAVE CONFIRMED TO US THAT THE QUESTION IS UNDER SERIOUS CONSIDERATION. HOWEVER, EVEN IF ONE TAKES COLLEY'S REMARK ON INEVITABILITY AT FACE VALUE (AND IRELAND'S PAST TRACK RECORD OF TALK BUT NO ACTION ON THE ISSUE INSPIRES CONSIDERABLE DOUBT) THE KEY QUESTION OF TIMING REMAINS TO BE CONSIDERED.

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3. MOST OF THE RECENTLY PUBLICIZED ARGUMENTS FAVORING A BREAK ASSUMED EITHER EXPLICITLY OR IMPLICITLY THAT THE IMMEDIATE FUTURE PROMISED A DETERIORATION IN THE BRITISH ECONOMY AND A DOWNWARD DRIFT OF THE BRITISH POUND. IT IS NOT COINCIDENTAL THAT SPATE OF NEWS STORIES ON SPLIT FOLLOWED INDICATIONS THAT LABOR DEMANDS MIGHT UNDERMINE UK ANT-INFLATION PROGRAM AND LEAD TO A SLUMP IN THE POUND. A WIDE-SPREAD FEELING EXISTS HERE THAT FURTHER DEPRECIATION IS NOT NECESSARY TO PROMOTE EXPORTS AT THIS TIME, AND THAT THIS WOULD, MOREOVER, UNDERMINE THE EFFORT TO BRING INFLATION UNDER CONTROL. ADVOCATES OF A SPLIT FROM A SLUMPING BRITISH CURRENCY CONCEDE POSSIBILITY OF SHORT-TERM ADJUSTMENT DIFFICULTIES, BUT EXPRESS CONFIDENCE THAT FAVORABLE IMPACT ON INFLATION RATE WOULD COMPENSATE FOR EFFECT OF APPRECIATION OF THE IRISH POUND AND THAT ECONOMY WOULD SOON BE PLACED ON MORE STABLE BASIS. A DISSENTING VIEW WARNS OF THE DANGER OF REVALUATION VIS-A-VIS IRELAND'S LARGEST COMMERCIAL PARTNER (ABOUT 50 PERCENT OF TOTAL INTERNATIONAL TRADE IS STILL WITH THE UK), AND PREDICTS A SIGNIFICANT LOSS OF EXPORT SALES TO UK AND INCREASED COMPETITION IN HOME MARKET IF A SUBSTANTIAL REVALUATION IS EFFECTED. THE RECENT STRENGTH OF THE BRITISH POUND SEEMS TO HAVE MINIMIZED THE CHANCE OF A SPLIT IN THE IMMEDIATE FUTURE, AND CERTAINLY HAS SILENCED CALLS FOR A REVALUATION.

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4. IN MORE BASIC TERMS, ABSTRACTED FROM QUESTION OF WITHER WILL
GO THE BRITISH POUND IN THE SHORT--47,, ADVOCATES OF A BREAK ARGUE
THAT IRELAND HAS MOVED FAR ENOUGH AWAY FROM ITS LONG STANDING ROLE
AS A PASSIVE AND OVERSHADOWED MEMBER IN A BIPARTITE ECONOMIC
UNION TO BENEFIT FROM A TERMINATION OF THE MONETARY ASPCT OF
THAT UNION. ALTHOUGH IRISH AUTHORITIES SOMETIMES TEND TO UNDER-
PLAY DOMESTIC FACTORS IN THE GENERATION OF THE SUPER-INFLATION
OF RECENT YEARS THERE IS SOME TRUTH IN THE ARGUMENT THAT THE IRISH
SITUATION APPROACHES THE CLASSIC CASE OF A SMALL OPEN ECONOMY
WITH A FIXED EXCHANGE RATE HAVING TO ACCEPT THE INFLATION RATE OF
A DOMINANT PARTNER. VIRTUALLY TOTAL LACK OF INDEPENDENCE IN

MONETARY SPHERE HAS BEEN A SERIOUS DISADVANTAGE IN COPING WITH
THE MULTIPLE ECONOMIC PROBLEMS OF RECENT YEARS. ON THE OTHER HAND
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THRE EXISTS REALISTIC APPRECIATION ON PART OF GOI OFFICIALS THAT
IRELAND HAS BENEFITTED ENORMOUSLY FROM FREE ACCESS TO UK CAPITAL
MARKET AND ADMINISTRATIVE CONVENIENCE IN BOTH TRADE AND INVESTMENT
FROM THE LINK.

5. MEMBERSHIP IN THE EC HAS PROVIDED IRELAND WITH ECONOMIC
ALTERNATIVES WHICH DID NOT PREVIOUSLY EXIST, AND, IN IRISH
EYES, PROVIDES ATTRACTIVE OPPORTUNITIES FOR A FURTHER DIVER-
SIFICATION OF NATION'S ECONOMIC AND COMMERCIAL RELATIONS. THE
AGRICULTURAL SECTOR HAS BENEFITTED ENORMOUSLY FROM THE LRGE,
RELATIVELY HIGH PRICE MARKET OFFERED UNDER CAP, AND THE SPLITTING
OF THE IRISH AND BRITISH GREEN POUNDS, ALTHOUGH DUE TO SPECIAL
FACTORS NOT ENTIRELY RELEVANT TO THE BROADER ISSUE, IS NOT WITH-
OUT SIGNIFICANCE AS A PRECEDENT FOR A COMPLETE MONETARY BREAK.
IN FACT THIS DIVERGENCE IN THE AGRICULTURAL SECTOR, WHERE POLICY
GOALS OF THE TWO GOVERNMENTS CONFLICT, WELL ILLUSTRATES THE BASIC
QUESTION BEHIND IRELAND'S CURRENT RE-EVALUATION OF THE LINK,
VIZ, DOES IT MAKE ECONOMIC SENSE IN THIS ERA OF FLEXIBLE
EXCHANGE RATES TO HAVE THE VALUE OF THE IRISH POUND SET ACCORDING
TO THE OBJECTIVES OF A GOVERNMENT IN LONDON.

6. FINANCE DEPARTMENT OFFICIALS DO NOT REGARD AN INDEPENDENT
FLOAT AS REALISTIC, AND JOINING THE SNAKE (WHICH HAD BACKERS
SEVERAL YEARS AGO) SEEMS LIKEWISE IMPLAUSIBLE. OFFICIALS SEEM TO
BE CONSIDERING, RATHER, AS A POSSIBLE REPLACEMENT FOR THE BRITISH
POUND A BASKET OF EC CURRENCIES, POSSIBLY ON A TRADE WEIGHTED
BASIS. (THIS WOULD PROBABLY INVOLVE A GREATER DEGREE OF
FOREIGN EXCHANGE CONTROL THAN IS NOW EMPLOYED). SUCH AN
ARRANGEMENT MIGHT IN FACT KEEP THE IRISH POUND REASONABLY CLOSE
TO THE BRITISH POUND BUT REFLECT THE GROWING IMPORTANCE OF
CONTINENTAL CURRENCIES TO IRELAND'S ECONOMIC WELL BEING.
IRONICALLY, BREAKING THE LINK MIGHT BE PORTRAYED AS A SMALL
STEP TOWARDS EUROPEAN MONETARY UNION. SHANNON
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Message Attributes

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